

No. 10/23/DPM

Jakarta, July 14, 2008

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS AND BROKERS

Subject : Second Amendment to Bank Indonesia Circular Letter Number 7/1/DPM dated January 3, 2005, concerning Implementation of Fine Tune Operation Transactions in Open Market Operations

To improve the implementation of monetary policy and valuation on underlying assets in Fine Tune Operation transactions, it is deemed necessary to amend Bank Indonesia Circular Letter Number 7/1/DPM dated January 3, 2005, concerning Implementation of Fine Tune Operation Transactions in Open Market Operations as amended by Bank Indonesia Circular Letter Number 9/5/DPM dated March 26, 2007, as follows.

1. Provisions in chapter I point 23 shall be amended that chapter I reads as follows.

I. GENERAL PROVISIONS

Terminologies used in this Circular Letter are defined as follows.

1. Bank is a Commercial Bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 conducting business on conventional basis.
2. Broker is a rupiah and foreign exchange money market brokerage company and a securities company designated by the Minister of Finance of the Republic of Indonesia as Government Bond auction participant in the primary market.

3. Open ...

3. Open Market Operation, hereinafter to be referred to as OMO, is a transaction activity in the money market conducted by Bank Indonesia with Banks and other parties in the effort of monetary control.
4. Fine Tune Operation, hereinafter to be referred to as FTO, is an OMO transaction conducted by Bank Indonesia at any time as necessary to influence banking liquidity in a short term on transaction time, amount, and price stipulated by Bank Indonesia.
5. Fine Tune Contraction, hereinafter to be referred to as FTK, is a fine tune transaction in effort of absorption of banking liquidity in a short term.
6. Fine Tune Expansion, hereinafter to be referred to as FTE, is a fine tune transaction in effort of addition of banking liquidity in a short term.
7. Bank Indonesia - Real Time Gross Settlement System, hereinafter to be referred to as BI-RTGS System, is a system for electronic fund transfer among BI-RTGS System members in the Rupiah with settlement in real time and on individual per transaction basis
8. Bank Indonesia - Scripless Securities Settlement System, hereinafter to be referred to as BI-SSSS, is a system that provides transaction facilities with Bank Indonesia including its administration and electronic securities administration, seamlessly interconnected among participants, the Operator, and the BI-RTGS System
9. Securities is Bank Indonesia Certificate and/or Government Bond in the Rupiah administered in trading account in the BI-SSSS.
10. Bank Indonesia Certificate, hereinafter to be referred to as SBI, is a rupiah denominated securities issued by Bank Indonesia as a short-term promissory note.

11. Government Bond, hereinafter to be referred to as SUN, is a securities in the form of promissory note in the Rupiah or foreign exchange which interest and principal are guaranteed by the State of the Republic of Indonesia, in accordance with its term, as referred to in applicable laws.
12. Repurchase Agreement Transaction, hereinafter to be referred to as Repo, is a Securities selling transaction by Bank with obligation to repurchase at a price and tenor as agreed.
13. Repo Securities Price is a Securities price stipulated by Bank Indonesia taking into account of rate of Haircut on Securities market price and stated in percentage.
14. Haircut is a margin stipulated by Bank Indonesia as a deducting factor of Securities price
15. SBI Repo Selling Value is an amount of fund in the Rupiah received by Bank selling SBI by Repo which is derived from a multiplication of Repo transaction quantity won by the Bank and Repo SBI Price.
16. SUN Repo Selling Value is an amount of fund in the Rupiah received by Bank selling SBI by Repo which is derived from the multiplication of Repo transaction quantity won by the Bank and Repo SUN Price, added with accrued interest which is counted since the last coupon payment date up to Repo transaction date except the Repo transaction is conducted on 1 (one) business day prior to the coupon payment date.
17. SBI Repo Repurchase Value is an amount of fund in the Rupiah to be paid back by Bank selling SBI by Repo which is derived from the addition of mature SBI Repo Selling Value and Repo interest to be paid.
18. SUN Repo Repurchase Value is an amount of fund in the Rupiah to be paid back by Bank selling SUN by Repo which is derived from the

addition ...

addition of mature Repo SUN Selling Value and Repo interest to be paid deducted by coupon received by Bank Indonesia if there is coupon payment within Repo transaction period.

19. Fine Tune Settlement is a settlement comprising fund settlement and/or securities settlement.
 20. Fund Settlement is a transfer of fund between Bank Indonesia and Bank holding Rupiah demand deposit account with Bank Indonesia through the BI-RTGS System.
 21. Securities Settlement is a transfer of Securities between Bank Indonesia and Bank holding Securities account with the Central Registry through the BI-SSSS.
 22. Delivery Versus Payment, hereinafter to be referred to as DVP, is a Fine Tune transaction settlement by Securities Settlement through the BI-SSSS which is conducted simultaneously with Fund Settlement in Bank Indonesia through the BI-RTGS System.
 23. Commercial Bank Daily Report System, hereinafter to be referred to as LHBU System, is a Bank reporting system to Bank Indonesia on daily basis, including provision of information on money market and announcements from Bank Indonesia.
2. Provisions in chapter II letter C number 3 shall be amended that chapter II letter C reads as follows.

II. GENERAL MECHANISM OF FTO TRANSACTIONS

C. Transaction Participants

1. Party eligible to conduct FTO transactions, hereinafter to be referred as the Auction Participant, is :
 - a. Bank bidding for its own behalf;
 - b. Broker bidding for Banks.

2. The Broker as referred to in point 1.b stipulated eligible to participate in FTO transactions is :
 - a. Rupiah and foreign exchange money market Broker for all FTO transactions.
 - b. Securities company designated by the Minister of Finance of the Republic of Indonesia as SUN Auction Participant in the primary market for FTE transactions.
3. The Auction Participant as referred to in point 1 shall be in the status of active as BI-SSSS participant and shall not be under imposition of sanction of suspension to participate in OMO activities.
3. Provisions in chapter III letter B point 3 and point 4 shall be amended that chapter III letter B reads as follows.

III. TYPES OF FTO TRANSACTIONS

B. Fine Tune Expansion (FTE) Transactions

1. FTE shall be conducted through SBI or SUN trading transaction by Repo under Securities sell and buy back principle and the following regulation.
 - a. Ownership registration of Securities owned by Bank which is sold under Repo (first leg) will be transferred into Securities trading account of Bank Indonesia (transfer of ownership).
 - b. On the Repo transaction maturity date (second leg) the Bank as referred to in letter a shall be required to repurchase the Securities under Repo to Bank Indonesia.
 - c. In the event of any failure in Securities repurchase by the Bank as referred to in letter b, the transaction shall be settled as follows.
 - 1) If the type of Securities as referred to in letter b is SBI, the SBI failing to be repurchased by the Bank shall be redeemed before maturity (early redemption); and/or

2) If

- 2) If the type of Securities as referred to in letter b is SUN, the SUN failing to be repurchased by Bank shall be treated as an outright selling transaction from Bank selling the Repo to Bank Indonesia.
 - 3) The transaction settlement as referred to in point 1) and point 2) shall not reduce obligation of Bank to pay FTE transaction Repo rate.
2. To be traded under a simple interest method taking into account of number of days based on calendar days.
 3. The use of SBI in FTE transactions shall be regulated as follows.
 - a. Bank Indonesia shall determine series, Haircut, and price of SBI tradable under Repo and announce through the BI-SSSS.
 - b. On the Repo transaction maturity date (second leg), the SBI under Repo shall still have remaining days to maturity of at least 2 (two) business days.
 - c. The SBI price as referred to in letter a shall be determined taking into account of weighted average discount rate on issuance and remaining days to maturity of each SBI series.
 - d. Repo SBI price shall be determined at the amount of SBI Price deducted by a certain Haircut. An example of calculation of Repo SBI Price is presented in Appendix 1.
 - e. Mature SBI Repo repurchase price shall be determined equivalent to the Repo SBI Price.
 - f. Fine Tune Settlement on SBI selling by Repo (first leg) shall comprise :
 - 1) Fund Settlement at the amount of SBI Repo Selling Price.
 - 2) Securities Settlement at the amount of SBI Repo nominal value won by Bank.

g. Fine ...

- g. Fine Tune Settlement on SBI repurchase (second leg) shall comprise :
 - 1) Fund Settlement at the amount of SBI Repo repurchasing value.
 - 2) Securities Settlement at the amount of nominal value of SBI under Repo.
- 4. The use of SUN in FTE transactions shall be regulated as follows.
 - a. Bank Indonesia shall determine series, Haircut, and price of SUN tradable under Repo and announce through the BI-SSSS.
 - b. On the Repo transaction maturity date (second leg) the SUN under Repo shall still have remaining days to maturity at least of :
 - 1) 2 (two) business days for Treasury Bill (SPN); or
 - 2) 10 (ten) business days for Treasury Bond (ON) including Retail Treasury Bond (ORI) and Zero Coupon Bond (ZCB).
 - c. The SUN Price as referred to in letter a shall be determined taking into account of market price of each SUN type and series.
 - d. Repo SUN Price shall be determined at the amount of the SUN Price deducted by a certain Haircut. An example of calculation of Repo SUN Price is presented in Appendix 1.
 - e. Mature SUN Repo repurchase price shall be determined equivalent to the Repo SUN Price.
 - f. Fine Tune Settlement on SUN selling by Repo (first leg) shall comprise :
 - 1) Fund Settlement amounting to SUN Repo Selling Value.
 - 2) Securities Settlement amounting to SUN Repo nominal value won by Bank.
 - g. Fine Tune Settlement on SUN repurchase by Repo (second leg) shall comprise :

1) Fund ...

- 1) Fund Settlement amounting to SUN Repo Repurchase Value.
 - 2) Securities Settlement amounting to nominal value of SUN under Repo.
 - h. If Bank Indonesia receives coupon payment of SUN under Repo, the coupon will be counted as a deducting factor of SUN Repo Repurchase Value.
4. Provisions in chapter IV letter C point 4 shall be amended that chapter IV letter C reads as follows.

IV. PROCEDURES OF FTK TRANSACTIONS

C. Transaction Settlement and FTK Redemption

1. Bank Indonesia, c.q. Monetary Management Transaction Settlement Division – Directorate of Monetary Management (PTPM-DPM) shall conduct Fine Tune Settlement through the BI-SSSS, seamlessly interconnected with the BI-RTGS System, by debiting Rupiah demand deposit account of Bank with Bank Indonesia amounting to FTK transaction cash value.
2. The FTK Settlement as referred to in point 1 shall be conducted under gross to net settlement mechanism.
3. Any Bank shall be required to provide fund for the debiting of demand deposit account as referred to in point 1 up to the time limit at :
 - a. 1.00 p.m. (western Indonesia time) for FTK transactions won by the Bank in the morning session.
 - b. BI-RTGS System cut off warning for FTK transactions won by the Bank in the afternoon session.
4. In the event that a Bank does not have adequate balance in its Rupiah demand deposit account up to Fund Settlement time limit as referred

to in ...

to in point 3, the system shall automatically cancel all transactions won by the Bank in the FTK transaction auction.

5. On the cancellation of FTK transaction as referred to in point 4 the Bank shall be liable to OMO sanctions.
 6. FTK transactions which have been successfully completed with Fund Settlement shall be registered in the BI-SSSS in the Bank Indonesia Deposit Facility (FASBI) registration.
 7. On the FTK maturity date Bank Indonesia shall conduct FTK redemption automatically through the BI-SSSS at the amount of the FTK nominal value.
5. Provisions in chapter V letter A point 2 shall be amended that chapter V letter A reads as follows.

V. PROCEDURES OF FTE TRANSACTIONS THROUGH SBI OR SUN TRANSACTIONS BY REPO

A. Bidding for FTE Auction

1. Bank Indonesia, c,q. Monetary Operation Bureau - Directorate of Monetary Management (BOPM-DPM) shall announce FTE transaction plan with or without transaction quantity indicative target to Auction Participants no later than before FTE transaction window time opens through the BI-SSSS System and LHBUS System.
2. The announcement on FTE transaction plan shall include, among other things :
 - a. Repo tenor;
 - b. auction window time;
 - c. Securities series and prices;
 - d. FTE Repo rate if traded under fixed rate tender method or FTE indicative target if traded under variable rate tender method; and
 - e. Fine Tune Settlement date and time limit.

3. During ...

3. During the window time Auction Participants shall put in bids for FTE transactions through BI-SSSS including, among other things, transaction quantity, Repo rate, and types/series of Securities under Repo.
 4. FTE transaction quantity bids of each Bank shall amount to no less than Rp1,000,000,000.00 (one billion Rupiah) and the remainder with a multiple of Rp100,000,000.00 (one hundred million Rupiah), applicable for each 1 (one) transaction tenor and Repo rate bid by Bank.
 5. If the FTE transaction applies the variable rate tender method, the multiple of Repo rate for each Repo bid and tenor shall be 0.01% (one per ten thousand).
6. Provisions in chapter VI shall be amended that chapter VI reads as follows.

VI. MECHANISM OF SANCTION IMPOSITION

1. In case of any cancellation of Fine Tune Settlement as referred to in point II.D.4 and point V.C.2.c, the concerned Bank shall be liable to OMO sanctions in the form of :
 - a. written warning, with a copy to :
 - 1) concerned Directorate of Bank Supervision, if the sanction is imposed on a Bank which head office is located in the working area of Bank Indonesia Head Office; or
 - 2) Bank Supervision Team of local Bank Indonesia Regional Office, if the sanction is imposed on a Bank which head office is located in the working area of a Bank Indonesia Regional Office; and
 - b. financing penalty of 1‰ (one per one thousand) of cancelled transaction nominal value with a maximum amount of Rp1,000,000,000.00 (one billion Rupiah).

2. On the cancellation for the third time in a period of 6 (six) months, in addition to the imposition of sanctions as referred to in point 1, Bank shall also be imposed a sanction of suspension to participate in OMO activities for 5 (five) business days.
An example of sanction of suspension to participate in OMO activities is presented in Appendix 9.
3. The written warning as referred to in point 1.a. shall be delivered on 1 (one) business day after the cancellation of transaction
4. The sanction of financing penalty as referred to in point 1.b shall be imposed by debiting Rupiah demand deposit account of the Bank with Bank Indonesia on 1 (one) business day after the cancellation of transaction.
5. The sanction of suspension to participate in OMO activities as referred to in point 2 shall be imposed on 1 (one) business day after the cancellation of transaction.
6. The transaction nominal value as referred to in point 1.b shall be :
 - a. for FTK transactions, the FTK transaction nominal value won by Bank;
 - b. for FTE transactions, the nominal value of Securities under Repo as referred to in point III.B.3.f.2), III.B.3.g.2), III.B.4.f.2), or III.B.4.g.2).
7. Appendix 1, Appendix 4, Appendix 5, Appendix 6, and Appendix 7 shall be amended, and added with a new appendix, namely Appendix 9, as presented as Appendix 1, Appendix 4, Appendix 5, Appendix 6, Appendix 7, and Appendix 9 in this Circular Letter.
8. All addressing of the Money Market Information Center (PIPU) facilities as referred to in provisions concerning Fine Tune Operations prevailing prior to the enactment of this Circular Letter must read as the LHBU System.

Provisions ...

Provisions in this Circular Letter shall come into force as of July 14, 2008.

For the public to be informed, it is ordered that this Bank Indonesia Circular Letter be promulgated in the Official Government Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

EDDY SULAEMAN YUSUF
DIRECTOR OF MONETARY MANAGEMENT